

PD-AX-836
EN 8636

ECPR
Issues Paper

County	Guinea
Project Name & Number	AEPRP Promotion of Private Marketing & Distribution (PPMD) (675-0217)
LOP Funding:	\$10,000,000 (ESF) \$2,500,000 (D.A.)
Obligations this FY	\$12,500,000

There is one major issue in this program.

Neither the GOG nor the commercial banks are willing to absorb the risk associated with the local currency lending program.

Discussion: The Equator Advisory Services Team that conducted the credit and marketing analysis recommended that the GOG Central Bank be the lender and that commercial banks pay an intermediary credit management role for a fee expressed as a percentage of the lending rate. The GOG, under this scenario would bear nearly all of the risk. (Annex 1, page 36, para three) This position was unacceptable to the Africa Bureau, and the PAAD was subsequently rewritten in such a way that requires Commercial Banks to assume all of the risk associated with lending.

AID's approach to the risk question, which is supported by the GOG and the IMF is based on our desire that commercial banks function in a real, unsubsidized market environment. Funding should be prudently administered to qualified borrowers with expectation of full repayment. If commercial banks have little or no risk, they are unlikely to exercise sound judgment in administering credit. Perhaps more importantly, this program seeks to strengthen Guinea's private banking and credit sector. Subsidization of credit will only weaken the banks' ability to survive and grow in future years.

The AAO/Guinea states (Conakry 2433) that the Commercial Banks in Guinea are willing to accept no more than 20 percent of the risk associated with this lending program. They might accept up to 50

percent of the risk but only if the borrowers were well known and credit worthy. The Mission further states that the GOG Central Bank is unwilling to support with its own funds the portion of credit risk not borne by the Private Banks. This is a catch-22. The IMF representative in Guinea shares the AAO view that it is unreasonable to expect commercial banks to accept 100 percent of the risk.

Options:

1. The AAO/Guinea has suggested that we ask Commercial Banks to bear no more than 20-30 percent of risk and set up a guarantee fund with AEPRP counterpart generations to cover the Central Bank's share of risk. AAO believes that the problem is solvable, but will require considerable negotiation over a period of time.

Comment: The counterpart is the GOG contribution to the program. Any loss of this counterpart would be a net loss to the GOG treasury. Nonetheless, this may be a viable option if properly framed. It will certainly require considerable study and negotiation.

2. Allow the GOG and the Central Banks to agree on the terms of lending, including risk sharing, and be prepared to go along with the outcome.

Comment: These funds are the GOG's contribution to the program. One could argue that the GOG's interest in protecting them is at least as great as AID's. Should they choose to stimulate lending or broaden the base of borrowers through loan guarantees, they might, arguably, have a right to do so.

3. Proceed as planned with the Commercial Banks' bearing 100 percent of risk. but review use of credit fund after six months and make adjustments if needed. These adjustments could consist of either acceding to the Commercial Banks' position, if necessary and desirable, or agreeing to an alternate use of local currency related to the economic reform initiative. Either alternative would require appropriate and clear language in the grant agreement.

Comment: It is normal for the commercial banks to attempt to limit their exposure in a lending program. We believe that significant demand for credit exists on the part of qualified borrowers, and that the banks will see that it is in their own interest to extend loans, even without preferential conditions. We also believe it possible that the Central Bank may wish to provide incentives to the commercial banks by restructuring the discount rate for this program.

Recommendation: That we proceed as planned, asking commercial banks to absorb the risk-in-lending; that we do so understanding that the use of local currency funds will be reviewed after six months of operation, and that a change in direction vis-a-vis use of local currencies may be needed at that time.

Parallel Issue: The AAO/Conakry has proposed two additional covenants, suggested by the private banking community, which would remove obstacles to lending. These are:

1. "To further promote foreign trade and commerce, the GOG commits itself to the establishment of bonded warehouses."

2. "The GOG will continue to endeavor to remove all obstacles to the full and rapid growth of the private sector, including the adoption, as soon as possible, of a reliable legal system for granting property titles and the establishment of a uniform land tenure system."

Discussion: Both of these covenants relate to collateral. The first on import/export trade, and the second on general lending. Without collateral or other guarantees, the banks are constrained from serious lending.

Recommendation: That both of the above covenants be included in the grant amendment.

Drafted: AFR/PD/CCWAP:NRifkin:7/10/86:647-9066:2417K

Clearances:

AFR/PD:CPeasley (draft)
AFR/DP:JWolgin (draft)

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INFO AFCC-02 AFOW-03 AIDP-04 STOP-01 IPA-02 SEP-01 AFTH-05
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RELC-01 AFM-01 /03/80

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DRAFTED BY: AID/AFR/ID/CCWAP:NRIFK/N:2341K
APPROVED BY: AID/DAA/AFR:LR CHARDS
AID/AFK/ID/CCWAP:HEHLMAN (DRAFT) AID/AFR/CCWA:JCHLES (DRAFT)
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AIDAC

E.O. 12356: N/A

TAGS:
SUBJECT: GUINEA AERPP

1. PER DISCUSSIONS WITH WEITLING, AFR/PD AND STERVINO
ARE MAKING FINAL REVISIONS IN PAAD. IN ORDER TO
COMPLETE TASK, WE NEED IMMEDIATE INPUT FROM MISSION ON
SEVERAL QUESTIONS.

2. IN ORDER TO BETTER DESCRIBE USE OF TA CONNECTED WITH
EXPANDED AERPP, WE REQUEST AAO DISCUSS TA NEEDS WITH
APPROPRIATE GOG OFFICIALS AND CABLE RECOMMENDATIONS
SOONEST BUT NOT LATE JUNE 19. WE SEE THREE BROAD AREAS FOR
USE OF TA.

A. SHORT AND LONG TERM ADVISORY SERVICES TO SELECTED
MINISTRIES AND BANKING INSTITUTIONS;

B. SHORT TERM TA TO CONDUCT ESSENTIAL RESEARCH RELATED
TO CREDIT POLICY, MARKETING AND DISTRIBUTION, CIVIL
SERVICE REFORM, ETC.

C. TA FOR PROJECT MONITORING AND EVALUATION.

SINCE FUNDING IS BEING MADE AVAILABLE FROM ARDN ACCOUNT,
TECHNICAL ASSISTANCE SHOULD BE RELATED TO AGRICULTURE
AND RURAL DEVELOPMENT AND LINKED TO ECONOMIC POLICY
REFORM. MISSION SHOULD THINK IN TERMS OF ONE TO THREE
LONG TERM ADVISORS WITH THE REMAINDER SHORT TERM OR OPEN
ENDED INSTITUTIONAL CONTRACTS. WE HAVE ADJUSTED AERPP
SUBMISSION ALLOWING UP TO DOLS. 2.5 MILLION FOR TA. YOU
MAY WISH TO REVISE FIGURE DOWNWARD IF YOU BELIEVE THAT
ALL OF THIS FUNDING IS NOT REQUIRED.

3. WE ALSO REQUEST THAT YOU DISCUSS SUBSTANCE OF
REVISED CONDITIONALITY WITH GOG AND CABLE CONCURRENCE
NOT LATE JUNE 23. PRECISE LANGUAGE MAY BE MODIFIED UPON
REVIEW BUT FOLLOWING REFLECTS SUBSTANCE OF CONDITIONS:

A. GP'S FIRST DISBURSEMENT:

(1) SHOW EVIDENCE THAT THE COMMERCIAL BANKS HAVE AGREED
TO PARTICIPATE IN A PRIVATE SECTOR CREDIT PROGRAM
FINANCED THROUGH A LOCAL CURRENCY ACCOUNT ESTABLISHED IN
THE CENTRAL BANK.

NOTE: AT TIME OF INITIAL DISCUSSIONS WITH EQUATOR,
COMMERCIAL BANKS REGISTERED GENERAL ENTHUSIASM

PREDICATED UPON NOTION THAT CENTRAL BANK WOULD BE FIRST
TO OPEN UP LOCAL CURRENCY ACCOUNT FOR NEW GENERAL COMMERCIAL
BANKS UNDER AID OF THE AERPP. YOU SHOULD VISIT EACH OF
THE THREE BANKS TO RE-EVALUATE WHETHER THEY WILL INDEED
PARTICIPATE UNDER NEW REGULATIONS IF THE AERPP IS TO
REMAIN OR EVOLVE. KINDLY INCLUDE MODIFIED APPROACH
TO RISK QUESTION. SINCE INTENT OF LOCAL CURRENCY
LENDING PROGRAM IS TO PROVIDE CREDIT WHICH WILL,
HOPEFULLY, IMPACT ON RURAL SECTOR, REQUEST PROBING
BANKER ATTITUDES ON THE KIND OF LOANS THEY ARE LIKELY TO
WRITE BASED UPON THEIR PERCEPTION OF MARKET DEMAND.

(2) SET A FIXED DATE FOR THE DISBURSEMENT OF THE STATE
FROM THE SALE AND DISTRIBUTION OF ALL AGRICULTURAL
INPUTS INCLUDING FERTILIZER, SEED, AGRICULTURAL
EQUIPMENT AND MACHINERY.

(3) OPEN A SPECIAL ACCOUNT IN THE CENTRAL BANK AND
AGREE, IN WRITING, TO DEPOSIT THE LOCAL CURRENCY
EQUIVALENT OF AT LEAST DOLS. 5 MILLION AT THE TIME THE
DOLLARS ARE MADE AVAILABLE.

B. GP'S SECOND DISBURSEMENT

(1) ISSUE A REVISED COMMERCIAL AND INVESTMENT CODE
WHICH ELIMINATES INCONSISTENCIES BETWEEN THE CODES AND
ASSURES EQUITY TO ALL SEGMENTS OF THE PRIVATE SECTOR
PARTICIPATING IN THE NATIONAL ECONOMY.

NOTE: IN YOUR DISCUSSIONS WITH THE GOG YOU SHOULD
STRESS THAT WE EXPECT A CODE THAT IS NEITHER
PROTECTIONIST NOR EXCLUSIVE.

(2) ELIMINATE ALL PARASTATALS ENGAGED IN THE IMPORT AND
DISTRIBUTION OF AGRICULTURAL PRODUCTION INPUTS AND THE
MARKETING AND EXPORT OF CASH CROPS. NOTABLY, ASRIMA,
SEMAPE, PROSECO AND FRUITEX.

(3) ANNOUNCE A TIMETABLE FOR ELIMINATING POLICY OF
ESTABLISHING OFFICIAL PRODUCER AND CONSUMER PRICES.

C. SPECIAL COVENANT

FORMALLY ADOPT A COMPREHENSIVE CREDIT POLICY INCLUDING
INTEREST RATES ON BANK SAVINGS DEPOSITS AND LOANS,
INTERBANK RATES, SECTORS (IF ANY) ENTITLED TO
PREFERENTIAL LENDING AND DISCOUNT RATES, OVERALL CREDIT
AND MONEY SUPPLY CEILINGS FOR 1986, AND SPECIFIC CREDIT
GUIDELINES WITH DOCUMENTATION, ELIGIBILITY AND
COLLATERAL REQUIREMENTS FOR SHORT, MEDIUM AND LONG TERM
CREDIT.

NOTE: THERE ARE SEVERAL OTHER COVENANTS WHICH ARE
LARGELY ADMINISTRATIVE IN NATURE AND WHICH APPEAR IN
YOUR DRAFT. THIS COVENANT SHOULD BE COMPLIED WITH
BEFORE RELEASE OF ANY FUNDS FROM SPECIAL LOCAL CURRENCY
ACCOUNT.

3. GUINEA AERPP ECPR IS NOW SCHEDULED FOR JULY 8,
1986. WE ARE AWARE OF AMBASSADOR'S DESIRE TO SIGN
PROGRAM AGREEMENT PRIOR TO HIS DEPARTURE BUT WE WERE NOT
ABLE TO SCHEDULE EARLIER REVIEW DUE TO CONFLICTING
SCHEDULES OF KEY PLAYERS. FYI, STERVINO IS ON LEAVE
AND WILL RETURN WASHINGTON WEEK OF JUNE 16. DURING
INTERIM RIFKIN WILL REDRAFT PAAD WITH INPUT FROM PEASLEY
AND WOLGIN. IT IS CRITICAL THAT WE HAVE YOUR INPUT TO
PARA ONE ABOVE FOR SECTION ON TECHNICAL ASSISTANCE AS
WELL AS GOG CONCURRENCE ON PARA TWO (B) (2) REGARDING
DIVESTITURE OF PARASTATALS. SHULTZ

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FOR AFR/PD/CCWAP, AFR/CCWA AND AFR/DP

E.O. 12356: N/A
SUZJECT: GUINEA AEP RP

REFS: STATE 183510

FOLLOWING TALKS WITH A NUMBER OF GOG OFFICIALS AND
COMMERCIAL BANK REPRESENTATIVE, AAO PROVIDE FOLLOWING
INTERIM RESPONSE TO QUESTIONS RAISED
REFTEL.

1. TECHNICAL ASSISTANCE:

A. THE BROAD AREAS FOR USE OF TA PRESENTED PARA 2
REFTEL ARE FIGHT ON TARGET AND ALL THE DOLS 2.5
MILLION IS REQUIRED TO PROVIDE THE TA NEEDED BY GOG,
APPROPRIATE PRIVATE SECTOR ENTITIES AND FOR
MONITORING/EVALUATING THE PROGRAM. IN VIEW OF THE
ALMOST TOTAL LACK OF ESSENTIAL PLANNING INFORMATION,
THE LIST OF TA NEEDS IS ALMOST INEXHAUSTIBLE. THE
FOLLOWING IS ILLUSTRATIVE OF THE AREAS IN WHICH THE
GOG WOULD LIKE TO USE TA IN THE VERY NEAR TERM.

- NATIONAL AGRICULTURAL CENSUS AND INVENTORY OF
AGRICULTURAL RESOURCES, CONSTRAINTS AND POTENTIAL.
- ESTABLISHMENT OF CAPACITY FOR THE COLLECTION,
COMPILATION AND ANALYSES OF AGRICULTURAL STATISTICS
- MARKET SURVEY ON NEED/DEMAND FOR AGRICULTURAL
INPUTS AND CREDIT
- DEVELOPMENT AND MANAGEMENT OF AGRICULTURAL
CREDIT SYSTEM AND PRIVATE ENTERPRISES FOR THE
IMPORT AND DISTRIBUTION OF AGRICULTURAL INPUTS.
- SURVEY OF HOUSE HOLD BUDGETS, CONSUMPTION AND
PRICE OF CONSUMER GOODS.
- SURVEY OF TRANSPORT STRUCTURE, COST AND
PRESENT/PROJECTED CAPACITY, ETC.
- STUDY OF MARKETING SYSTEM FOR RICE, OTHER
CEREALS, PALM NUTS AND COFFEE, ETC.
- INVENTORY OF ACTUAL AND POTENTIAL COFFEE
PRODUCTION.
- INVENTORY OF FORESTRY AND FISHING RESOURCES.
- STUDY OF FOOD SUPPLY SITUATION.
- URGENT GROWTH/DEVELOPMENT OF MAJOR POPULATION
CENTERS
- STUDY OF POSSIBILITY OF LOCAL MANUFACTURES OF
AGRICULTURAL HAND TOOLS AND IMPLEMENTS.
- STUDY OF DEVELOPMENT OF HIGH POTENTIAL SITES,
FOR INTENSIVE AGRICULTURAL PRODUCTION.
- FEASIBILITY STUDY ON THE MOUNTING OF A
COTTON/GROUNDNUT OIL EXTRACTION FACILITY IN UPPER
GUINEA

FARM/VILLAGE-LEVEL SLCIO ECONOMIC STUDIES,

- STUDY OF OPTIMUM FORM AND NUMBER OF
AGRICULTURAL CREDIT SERVICES AND THEIR ENTRY INTO
PRIVATE ENTERPRISE.

- REVIEW OF NATIONAL CREDIT NEEDS AND EXISTING
BANKING OPERATION/CAPACITY/NEEDS.

- ASSISTANCE WITH ESTABLISHMENT OF COMPUTERIZED
DATA BASE SYSTEM FOR FISCAL AND STATISTICAL
RECORDS/ANALYSES.

- ASSIST INVESTORS AND LOCAL ENTREPRENEURS WITH
THE ESTABLISHMENT OF THEIR BUSINESSES.

- ANALYZE HUMAN RESOURCE CONSTRAINTS IN BOTH
PUBLIC AND PRIVATE SECTORS, AND DESIGN/PROVIDE
TRAINING AS INDICATED AND POSSIBLE.

- ASSIST WITH GOG EFFORTS TO REDUCE AND
DECENTRALIZE GOVERNMENT ACTIVITY, AND TO PRIVATIZE
GOG PARASTATALS.

- PROVIDE ADVISORY SERVICES, CONDUCT OTHER STUDIES
AS REQUIRED AND PREPARE POSSIBLE FOLLOW-ON
ACTIVITIES TO BE FUNDED BY A.I.D.

B. AAO BELIEVES PROVIDING THIS KIND OF ASSISTANCE
WILL REQUIRE THREE LONG TERM ADVISORS (AN ECONOMIST
AND TWO OTHERS, PERHAPS CREDIT AND MARKETING
SPECIALISTS) FOR UP TO 72 PERSON/MONTHS AND UP TO
50 PERSON/MONTHS OF SHORT TERM TECHNICAL ASSISTANCE.

C. FOR PURPOSES OF PAAD AND/OR GRANT AGREEMENT A
BUDGET AND PROCUREMENT PLAN FOR OBTAINING THIS TA
AND RELATED COMMODITIES WILL BE REQUIRED. ALSO
WILL NEED TO KNOW IF PACD FOR TA GRANT WILL DIFFER
FROM CASH TRANSFER GRANT. AAO WILL NEED ASAP
ASSISTANCE IN PREPARING AMPLIFIED PROJECT
DESCRIPTIONS IF TWO AGREEMENTS ARE TO BE COMPLETED
IN A TIMELY FASHION. AAO REQUESTS THAT STERVINOU
BEGIN WORKING ON THESE WHILE IN WASHINGTON,
ESPECIALLY OBTAINING WHATEVER GUIDANCE/GUIDELINES
MAY BE AVAILABLE.

2. CONDITIONS PRECEDENTS:

A. COMMERCIAL BANKS, ESPECIALLY BICIGUI, ARE STILL
VERY INTERESTED IN PROPOSED LOCAL CURRENCY CREDIT
PROGRAM AND EXPRESS WILLINGNESS TO COOPERATE IN
VERY WAY. HOWEVER, THEY ARE NOT REPEAT NOT
PREPARED FOR THIS OR ANY DONOR-SPONSORED CREDIT
PROGRAM TO BEAR ALL THE RISKS. BANKING REPS FEEL
THAT THEY CANNOT BE EXPECTED TO TAKE SUCH RISKS AT
THIS FRAGILE, INITIAL STAGE OF CREDIT DEVELOPMENT
IN GUINEA WHEN THE VAST MAJORITY OF POTENTIAL
BORROWERS CANNOT PASS STANDARD CREDITWORTHINESS
TESTS. ALTHOUGH THEY ARE WILLING TO ACCEPT THE
DEVELOPMENT BANK ROLE WHICH IS BEING THRUST UPON
THEM AND THEY ARE EAGER TO ENCOURAGE THE GROWTH OF
THE NASCENT GUINEAN PRIVATE SECTOR, THEY BELIEVE
THE GOG OR DONOR SHOULD BEAR AT THIS TIME MOST OF
THE RISKS. THEREFORE, AS A DEMONSTRATION OF THEIR
EARNESTNESS THEY ARE WILLING TO ACCEPT UP TO 20
PERCENT OF THE RISKS, WITH THE CENTRAL BANK
COVERING THE REMAINING 80 PERCENT.

B. AAO BELIEVES THAT IT IS NOT POSSIBLE TO PUSH
BANKS BEYOND THIS 20 PERCENT RISK LEVEL AT THIS
TIME. ACCEPTING OF ANY GREATER RISK WOULD REQUIRE
THE UNLIKELY APPROVAL OF A MAJORITY OF
SHAREHOLDERS. THIS IS SPECIALLY SO IN VIEW OF
RISKS BORN BY BANKS FOR LINES OF CREDIT OFFERED BY
OTHER DONORS. FOR EXAMPLE, FOR IDA AND EEG, GOG
COVERS 100 PERCENT OF RISK. GOG DOES STATE,
HOWEVER, THAT THERE IS A NEED TO DEVELOP COMMON
FRAMEWORK FOR RISK SHARING LEVELS THAT WILL BE

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ADHERED TO BY ALL DONORS.

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SUPPLY CEILING, HAVE ALREADY BEEN ESTABLISHED BY
THE IMF.

C. THE KIND OF LOANS FINANCED BY THE BANKS WILL BE FOR SHORT TERM (LESS THAN TWO YEARS) AND MEDIUM TERM (1 TO 5 YEARS) CREDIT FOR SUCH ACTIVITIES AS DESCRIBED IN SECTION D.2 (IMPLEMENTATION-LOCAL CURRENCY) IN DRAFT PAAD PROVIDED TO AAO WENTLING BY STERVINOU PRIOR HIS DEPARTURE FROM AID/W ON JUNE 4. IT APPEARS THAT A LARGE PART OF CREDIT FUNDS WILL BE USED TO SATISFY LOCAL CURRENCY NEEDS (USUALLY 20 TO 30 PERCENT) OF LOAN PROPOSALS.

4. AAO WENTLING WILL CONTINUE MEETING WITH GOG OFFICIALS ON THIS SUBJECT AND WILL ADVISE PROMPTLY OF ANY NEW DEVELOPMENTS. HOWEVER, MISSION HOPES INFO PROVIDED THIS DATE AND THAT ALREADY ON HAND WILL PERMIT COMPLETION OF PAAD AND ITS REVIEW ON OR BEFORE JULY 8 AS PLANNED.
MITHOEFER

D. BICIGUI IS VERY CONSCIOUS OF EXTENDING CREDIT INTO RURAL AREAS AND CURRENTLY REFUSES TO FINANCE SUCH URBAN ACTIVITIES AS BAKERIES. A REFLECTION OF THIS DESIRE TO BETTER SERVE THE RURAL AREAS IS BICIGUI DECISION TO INCREASE FROM 3 TO 9 THE NUMBER OF UPCOUNTRY BRANCHES IT PLANS TO ESTABLISH BY THE END OF THE YEAR. SITES FOR THESE 9 BRANCHES ARE: FRIA, KAMGAR, BOKE, LABE, KANKAN, N'ZEREKORE, MACENTA, KISSIDOUYOU AND MAHOU.

E. FINAL GOG REACTION TO CP'S REQUIRES FORMAL REVIEW DURING MEETING OF ECONOMIC AND FINANCIAL COORDINATION COMMITTEE, COMPOSED OF KEY OFFICIALS CONCERNED WITH IMPLEMENTATION OF ECONOMIC REFORMS, E.G. GOVERNOR OF CENTRAL BANK, MINISTERS OF PLAN AND FINANCE. AAO WENTLING HAS OFFICIALLY COMMUNICATED THE CP'S TO GOG MINISTER OF PLAN AND IS PUSHING FOR FORMAL REVIEW ASAP. HOWEVER, WITH UNPLANNED VISIT OF IMF TEAM THIS WEEK, VISIT OF FRENCH MINISTER OF COOPERATION, ABSENCE OF CENTRAL BANK GOVERNOR, RECENT RETURN OF MINISTER OF PLAN, ETC., IT MAY BE TWO TO THREE WEEKS BEFORE SUCH A REVIEW CAN BE COMPLETED. AAO WILL CONTINUE TO PUSH FOR EARLIEST POSSIBLE REACTION OF PART OF GOG TO CP'S AND WILL ADVISE AID/W ACCORDINGLY.

F. AAO BELIEVES THAT ONLY CP WHICH MAY CAUSE PROBLEMS IS CALL FOR OUT RIGHT ELIMINATION OF PARASTATS, PARTICULARLY THOSE DEALING WITH AGRICULTURAL INPUTS. ALTHOUGH ALL GOG OFFICIALS WILL AGREE THAT ALL THESE PARASTATS SHOULD BE EVENTUALLY ELIMINATED AND SERVE LITTLE PURPOSE AT PRESENT, THEY WOULD LIKE TO BE CONFIDENT THAT THE PRIVATE SECTOR IS READY TO COME FORWARD TO WORK IN THESE AREAS. FOR EXAMPLE, THE RECENTLY RECEIVED IBRD-FUNDED, 10-YEAR MASTER PLAN FOR AGRICULTURAL DEVELOPMENT IN GUINEA, RECOMMENDS THAT SEMAPE BE MAINTAINED OVER A TRANSITION PERIOD, PERHAPS RESTRUCTURED AS A MIXED, GOG-PRIVATE COMPANY, FOR THE IMPORT AND DISTRIBUTION OF FERTILIZER AND OTHER CHEMICAL PRODUCTS. AAO THEREFORE URGES AID/W TO CONSIDER LANGUAGE FOR THIS CP WHICH IS A LITTLE MORE FLEXIBLE.

G. GIVEN MONEY SUPPLY CONSTRAINTS, CP REQUIRING DEPOSIT OF EQUIVALENT IN LOCAL CURRENCY OF DOLS 5 MILLION UPON TRANSFER OF THIS LATTER AMOUNT MAY CAUSE SOME PROBLEMS. IF ACCEPTABLE, AAO SUGGESTS ALLOWING 30 TO 45 DAYS FOR THE DEPOSIT OF THE LOCAL CURRENCY EQUIVALENT. PLEASE PROVIDE BUREAU VIEWS ON THIS.

3. SPECIAL COVENANTS:

CENTRAL BANK STATES TH COMPREHENSIVE CREDIT POLICY DOCUMENT HAS BEEN COMPLETED AND DISTRIBUTED TO COMMERCIAL BANKS FOR COMMENT. EXPECTATION IS THAT FINAL VERSION WILL BE PUBLISHED BY THE END OF JULY. CENTRAL BANK NOTES, HOWEVER, THY MONEY

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FOR AFR/CCWA, AFR/DP AND AFR/PD

E.O. 12356: M/A
SUBJECT: GUINEA EFRP

REF: A. STATE 205663, B. CONAKRY 2400

1. A. IN RESPONSE TO REF A AND 1/S PER FEF B AAO VENTLING MET WITH EACH OF THE FRANCH DIRECTOR GENERALS (DG'S) OF THE THREE COMMERCIAL BANKS (BICIGUI, BLAG AND AGE) AND THE FRENCH DIRECTOR OF THE CENTRAL BANK'S DIVISION OF BANKING AND CREDIT ON JULY 2. HE ALSO DISCUSSED ISSUE OF RISK TO BE BORNE BY THE COMMERCIAL BANKS WITH IMF REP. AAO SPENT FROM ONE TO TWO HOURS WITH EACH OF THE DG'S DISCUSSING IN-DEPTH THE RISK ISSUE AND OTHER MATTERS RELATED TO THE ESTABLISHED OF OUR LOCAL CURRENCY CREDIT SYSTEM. WHILE THESE SESSIONS WERE VERY INFORMATIVE, THE CONCLUSIONS CONCERNING THE LEVEL OF RISK THE BANKS CAN BE EXPECTED TO BEAR AND THE RATIONALE BEHIND THESE CONCLUSIONS ARE NO DIFFERENT THAN PREVIOUSLY REPORTED.

B. DURING THESE LENGTHY SESSIONS AAO FIRST TRIED EVERY POSSIBLE ARGUMENT TO GAIN ACCEPTANCE ON PART OF THE BANKS TO BEAR ALL THE RISKS AND, WHEN THIS FAILED, ATTEMPT WAS MADE TO HAVE THEM ACCEPT HIGHER PERCENTAGE OF RISK THAN THE 20 PERCENT THEY ARE CURRENTLY WILLING TO ACCEPT. ALL THIS WAS TO NO AVAIL AS EACH DG HELD FIRMLY TO THEIR POSITION OF BEARING 20 PERCENT OF THE RISK. THERE WAS SOME CONSENSUS HOWEVER, THAT IN SOME CASES WHERE THE BORROWER WAS WELL KNOWN, THEY MIGHT BE WILLING TO ACCEPT UP TO 50 PERCENT OF THE RISKS. IT WAS THOUGHT THAT THESE CASES WOULD BE FEW IN NUMBER AND, CONSEQUENTLY, REQUIRING THIS LEVEL OF RISK SHARING WOULD PROBABLY LIMIT LENDING TO MAKING BIG LOANS TO A HANDFUL OF "FATCATS". AND THIS WAS A POINT ALL THE DG'S MADE: THE MORE WE RAISE THEIR SHARE OF THE RISK, THE SLOWER OUR CREDIT FUND WILL MOVE.

C. AAO THEREFORE CONCLUDES THAT IF WE WANT OUR FUND TO MOVE AS DESIRED, THE RISKS TO BE BORNE BY THE BANKS MUST BE IN THE 20 TO 30 PERCENT RANGE. IF WE ARE NEITHER CONCERNED ABOUT HOW FAST THE FUND MOVES NOR THE NUMBER OF NEW BORROWERS, WE CAN REQUIRE THE BANKS TO BEAR RISK BETWEEN 30 TO 50 PERCENT. IF WE REQUIRE THE BANKS TO BEAR MORE THAN 50 PERCENT OF THE RISKS, IT IS UNLIKELY THAT OUR FUND WILL BE USED FOR SOMETIME TO COME.

2. A. THE FACT THAT THESE ARE LOCAL CURRENCY FUNDS THAT COULD BE USED FOR ONLY SHORT TERM CREDIT AT HIGHER INTEREST RATES DOES NOT CARRY MUCH WEIGHT WITH THE BANKS. FOR THEM THE RISK IS SIMILAR, WHETHER IT BE FOR LOCAL FUNDS, AND AS PRIVATE BANKS THEY HAVE A RESPONSIBILITY TO THEIR BOARDS AND SHAREHOLDERS

TO AVOID LOSING MONEY ON LOANS, THAT IN THE CURRENT GUINEAN CONTEXT CARRY A HIGH PROBABILITY OF NOT BEING FULLY REPAYED AND THERE IS PRACTICALLY NO RECOURSE FOR RECOVERING UNPAID LOANS.

B. ALL AGREE THAT AS GREATER KNOWLEDGE IS GAINED OF THEIR CLIENTELE AND IMPROVEMENTS IN PROVIDING LOAN GUARANTEES ARE MADE, THE RISK ELEMENT WILL LESSEN AND AT THAT TIME THEY WOULD BE WILLING TO INCREASE THEIR SHARE OF RISK. IN THIS REGARD, AAO PROPOSES THAT AID/W MIGHT WISH TO CONSIDER INCLUDING A COVENANT THAT STIPULATES THE INCREASING OF THE BANKS SHARE OF RISK AS PER THE FINDINGS OF PERIODIC EVALUATIONS OF THE CREDIT SYSTEM. AAO THEREFORE RECOMMENDS THAT WE BEGIN WITH A 20 PERCENT RISK RATE FOR THE BANKS AND ADJUST THIS ACCORDING TO THE RECOMMENDATIONS MADE AS THE RESULT OF QUARTERLY EVALUATIONS. ALSO, SOME PROCEDURE BY WHICH FUNDS ARE ONLY PROVIDED TO BANKS WILLING TO ACCEPT A STIPULATED LEVEL OF RISK MIGHT BE TRIED, BUT, AGAIN, THIS MIGHT BE TOO RESTRICTIVE AND THWART PURPOSE OF CREDIT FUND.

C. A MORE COMPLICATED APPROACH WHICH WOULD REQUIRE CLOSE OVERSIGHT WOULD BE THE NEGOTIATION OF THE RISK LEVEL ON A LOAN BY LOAN BASIS. ANOTHER OPTION WHICH MIGHT BE CONSIDERED IS THE CREATION OF A "GUARANTEE FUND" WHICH WOULD COVER BANK LOSSES IN THE EVENT THAT BORROWER DEFAULTED. THESE AND OTHER OPTIONS, ALONG WITH THE MECHANISMS AND TERMS TO BE APPLIED IN THE TRANSFERRING OF FUNDS FROM THE CENTRAL BANK TO THE COMMERCIAL BANKS, THE RULES WHICH WILL GOVERN THE OPERATION OF THE CREDIT FUND ETC., ARE ALL TOPICS THAT MIGHT WELL BE BETTER STUDIED DURING THE PERIOD THAT THE FUND IS BEING ESTABLISHED.

3. IN REFERENCE TO OTHER VIEWS EXPRESSED PARA 2, REF A, AAO WISHES TO SET THE RECORD STRAIGHT AS FOLLOWS. NO SUBSIDIZED CREDIT TO THE BORROWER IN TERMS OF INTEREST RATES IS PLANNED AND LOCAL IMF PER'S POSITION COINCIDES CLOSELY WITH THAT OF THE BANKS REGARDING LEVEL OF RISK THEY CAN BE EXPECTED TO BEAR AT THIS TIME. IMF REP WAS ABSOLUTELY ADAMANT THAT IT WAS TOTALLY UNREASONABLE UNDER CURRENT CONDITIONS TO EXPECT BANKS TO BEAR 100 PERCENT OF RISK. AS IMF REP WORKING CLOSELY WITH MINISTER OF ECONOMY AND FINANCE (MEF) ON THIS AND RELATED ISSUES, AAO MUST ASSUME MINISTER SHARES SAME VIEWS AS IMF REP. MINISTER OF PLAN IS OUT OF COUNTRY, BUT HE HAS PREVIOUSLY STATED THAT ON THESE FINANCIAL ISSUES AAO MUST REFER TO CENTRAL BANK AND MEF. ALSO NOTE THAT CENTRAL BANK GOVERNOR DEFERS TO FRENCH (IMF) ADVISOR ON THIS ISSUE. THEREFORE, IT IS UNREALISTIC TO EXPECT GOG TO PRESS BANKS ON THIS ISSUE.

4. IT IS ALSO CLEAR THAT THE CENTRAL BANK IS UNWILLING TO SUPPORT WITH ITS OWN FUNDS THE PORTION OF CREDIT RISK NOT BORNE BY THE PRIVATE BANKS. THEREFORE, THE FUND THAT IS ESTABLISHED WITH AFRPP COUNTERPART GENERATIONS WILL ALSO HAVE TO COVER THIS SHARE OF THE RISK. THIS IS ANOTHER EXAMPLE OF HOW COMPLICATED THE WHOLE MATTER OF CREDIT AND RISK IS AT THIS STAGE OF BANKING DEVELOPMENT IN GUINEA. IT IS ALSO INDICATIVE OF THE VERY FLUID, EVOLVING SITUATION THAT CURRENTLY EXISTS IN THIS AREA. THE PRIVATE BANKS (AND HERE WE MUST NOT TOTALLY EXCLUDE THE ISLAMIC BANK AND NEW BANKS WHICH MAY OPEN IN THE FUTURE) GOG AND USAID WILL THEREFORE STILL HAVE IMPORTANT WORK TO DO TO DEVISE A WORKABLE CREDIT FUND SYSTEM WHICH PERMITS CHANGES IN THE GROUND RULES AS THE SITUATION EVOLVES. THIS WILL INVOLVE MUCH FURTHER DIALOGUE WITH ALL PARTIES. AAO BELIEVES THAT IT IS

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THROUGH SUCH DIALOGUE THAT ACPRI WILL HAVE A CRITICAL
IMPACT ON HOW FUTURE CREDIT AND BANKING POLICIES/
PRACTICES ARE DEVELOPED IN GUINEA.

5. AAO REGRETS CONFUSION OVER THIS RISK ISSUE AND
POTENTIAL SHARP DIFFERENCE BETWEEN AID/W POSITION AND
THE REQUIREMENTS OF THE REALITY WE FACE ON THIS ISSUE.
IT WOULD BE INDEED UNFORTUNATE IF THIS IMPORTANT
CONTRIBUTION TO GUINEA'S OUTSTANDING REFORM PROGRAM
IS HELD UP OVER THIS ISSUE OF COMMERCIAL RISK, PARTI-
CULARLY AS THIS ISSUE APPEARS TO BE ONE THAT IS
PROGRESSIVELY SOLVABLE AS WE DEVELOP OUR CREDIT FUND
AND GAIN EXPERIENCE WITH ITS OPERATION. AT THIS POINT
MISSION STRONGLY BELIEVES THAT THE IMPORTANCE OF MOVING
AHEAD WITH OUR OVERDUE DOLS 10 MILLION CONTRIBUTION TO
GOG REFORM EFFORT FAR OUTWEIGHS CONCERNS ABOUT THE LEVEL
OF RISK TO BE BORNE BY THE BANKS.

6. AAO DOES NOT EXPECT ANY PROBLEM WITH CP'S
RELATING TO DIVESTITURE OF PARACTATALS AS MODIFIED PARA 3
REF A. HOWEVER, IT IS DIFFICULT TO FORESEE POSSIBLE
REACTION OF CERTAIN MEMBERS OF THE WIDER GOG GROUP OF
OFFICIALS THAT WILL BE INVOLVED IN THE FORMAL REVIEW
OF THE FINAL VERSION OF CP'S. AAO PREPARING REVISED
VERSION OF CP'S TO SHARE WITH MINISTER OF PLAN AND
COOPERATION FOLLOWING HIS RETURN TO GUINEA ON JULY 3.
ANY OFFICIAL REACTION WHICH MIGHT RESULT IN POSSIBLE
FURTHER MODIFICATION OF CP'S WILL BE REPORTED TO
AID/W PROMPTLY. AAO WENTLING INTENDS, HOWEVER, TO
HOLD FIRMLY THE LINE ON CP'S AS MODIFIED REF A.
ROSENTHAL

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ACTION AID-20

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BENEFICIARIES AND, PERHAPS, SLOW DOWN THE USE OF THE FUND.

ACTION OFFICE WFCW 03
INFO AAAP-02 AFDP-06 AFPD-01 GC-01 GCAF-01 GCFL-01 PPR-01
AFPE-04 AFDA-02 RELD-01 TELE-01 PRE-04 /033 A4 89

INFO LOG-00 COPY-01 AF-00 CIRE-00 EP-36 DUDE-01 /009 W
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AIDAC

AID/W FOR AFR/CCVA, AFR/DP AND AFR/PD
STATE FOR AF/W (HEDGES)

E.O. 12356: N/A
SUBJECT: GUINEA AEPRP; REPORT ON MEETING WITH BANKERS ASSOCIATION

REF: CONAKR 2439

1. FOLLOWING AAO WENTLING JULY 2 CALLS ON THE DIRECTOR GENERAL OF THE COMMERCIAL BANKS (SEE REFTEL REPORT), HE, DCM HITHOEFER AND L. STERVINDU, AID-FUNDED ADVISOR AT THE NATIONAL CENTER OF PRIVATE INVESTMENT PROMOTION, WERE INVITED TO ATTEND ON JULY 5 THE FIRST MEETING OF THE NEWLY ESTABLISHED PROFESSIONAL BANKING ASSOCIATION OF GUINEA. ATTENDING THIS VERY LIVELY AND FRIENDLY MEETING WERE THE CHARTER MEMBERS, I.E. THE DIRECTOR GENERAL OF ALL FOUR COMMERCIAL BANKS (BIAG, BICIGUI, SGB AND DMII), AND SEVERAL OF THEIR EXPATRIATE ASSISTANTS. THE MEETING WAS PRESIDED OVER BY THE ASSOCIATION'S ELECTED PRESIDENT THE DIRECTOR GENERAL OF BIAG. THE MAIN PURPOSE OF THIS MEETING WAS TO DISCUSS WITH MISSION PARTICIPANTS THE ESTABLISHMENT AND OPERATION OF THE LOCAL CURRENCY CREDIT FUND WITH THE BANKS UNDER GUINEA EPRP AND RELATED ISSUES, PARTICULARLY THE ISSUE OF HOW MUCH RISK THE BANKS ARE WILLING TO ACCEPT FOR LOANS MADE FROM THIS FUND. THE MAJOR CONCLUSION TO BE DRAWN FROM THE OVER THREE-HOUR MEETING IS THAT THE BANKERS ARE VERY EAGER TO WORK WITH US IN THE IMPLEMENTATION OF OUR MUCH WELCOMED EPRP CREDIT FUND, BUT, AT THE SAME TIME, THEY WANT US TO BE VERY MUCH AWARE OF THEIR CONSTRAINTS, THE ENVIRONMENT THEY WORK IN AND OF THE NEED TO CAREFULLY ANALYZE AND DESCRIBE IN DETAIL HOW OUR CREDIT FUND OPERATIONS ARE TO WORK, ESPECIALLY WITH REGARDS TO HOW FUNDING WILL BE RELEASED TO THEM FROM THE CENTRAL BANK AND GUARANTEES ARE ASSURED FOR THE PART OF THE RISK NOT COVERED BY THEM.

2. WITH REGARDS TO THE QUESTION OF RISK SHARING, THE BANKERS EXPRESSED AT SOME LENGTH THEIR UNDERSTANDING OF OUR DESIRE TO SEE THEM COVER ALL THE RISKS, BUT, NONETHELESS PRESENTED CONVINCING ARGUMENTS, ALONG LINES REPORTED REFTEL, AS TO WHY AT THIS STAGE OF BANKING/ CREDIT DEVELOPMENT IN GUINEA THEY CANNOT ACCEPT MORE THAN 20 PER CENT OF THE RISK. THEY DID INDICATE, HOWEVER, AFTER PERSISTENT GRILLING BY AAO, THAT AFTER ALL THE DETAILS ON THE FUND OPERATIONS ARE SATISFACTORILY WORKED OUT THEY WOULD BE WILLING IN THE VERY NEAR TERM TO INCREASE SUBSTANTIALLY THEIR SHARE OF THE RISK. AAO WENTLING BELIEVES THAT IF FUNDING RELEASE MECHANISMS AND ADEQUATE GUARANTEES FOR GOG'S SHARE OF RISK ARE PROVIDED THAT BANKS MIGHT ACCEPT BY THE END OF THE PROGRAM A RISK LEVEL OF UP TO 50 PCT. HOWEVER, AS EXPRESSED REFTEL, THERE IS THE CONCERN THAT THE HIGHER THE BANK'S SHARE OF THE RISK IS RAISED THE MORE YOU NARROW THE GROUP OF

3. THE BANKERS AGAIN PETERATED THAT THE HIGH LEVEL OF RISK OF MAKING LOANS IN GUINEA WITHIN THE PRESENT LEGAL/ECONOMIC CONTEXT IS DUE TO THE ALMOST TOTAL LACK OF GUARANTEES WITH REGARD TO A CLIENT'S ABILITY TO REPAY A LOAN. THERE IS AS YET NO FAULT-PROOF SYSTEM FOR CHECKING ON A BORROWER WHOEVER BORROWS OF A LOAN. IT IS ALMOST IMPOSSIBLE TO VERIFY THE INFORMATION PROVIDED BY THE BORROWER ON THE LOAN APPLICATION GIVEN THE ABSENCE OF A DEEDING SYSTEM AND ANY CLEAR PROPERTY LAWS OR RECOGNIZED PROOF OF OWNERSHIP SYSTEM. IT IS NOT POSSIBLE TO VERIFY A BORROWER'S CLAIM OF OWNERSHIP. ALSO THERE IS NO ACCEPTABLE LEGAL SYSTEM FOR PLACING LIENS ON PROPERTY AND PURSUING THE SEIZURE OF PROPERTY THROUGH LEGAL MEANS. THE CURRENT DISARRAY IN THE LAND TITLE ADMINISTRATION MEANS THAT PROPERTY CANNOT BE USED FOR MORTGAGE PURPOSES. ALSO, HOUSES AND LAND CANNOT BE SOLD, MORTGAGED AS GIVEN AWAY WITHOUT THE FULL CONSENT OF SPOUSES, FAMILY ELDER, OLDER CHILDREN, CHEF DE QUARTIER (GOVT), ETC THIS LACK OF A CLEAR LEGAL SYSTEM TO PROVE AND CONFIRM OWNERSHIP REPRESENTS ONE OF THE MAJOR OBSTACLES TO PRIVATE SECTOR GROWTH. GOG AND DONORS (ESP. WORLD BANK) ARE AWARE OF THIS AND ARE WORKING ON THIS, BUT, AFTER A QUARTER CENTRY OF GROSS NATIONALIZATION, AND CONFISCATIONS, THE ABSENCE OF A RELIABLE PROPERTY TITLE SYSTEM AND POPULATION INCREASE, PARTICULARLY IN URBAN AREAS, IT WILL TAKE SOMETIME TO DECIDE WHO OWNS WHAT AND HOW THIS CAN BE RELIABLE PROVEN.

4. THE BANKERS DID STATE THAT MOST OF THEIR PROBLEMS WITH REGARDS TO GUARANTEES NEEDED FOR MAKING LOANS FOR EXPORT/IMPORT TRADE WOULD BE SOLVED IF BONDED WAREHOUSES COULD BE ESTABLISHED. THE BANKERS HAVE ALREADY DONE A LOT OF WORK TOWARD THE ESTABLISHMENT OF SUCH A WAREHOUSE COMPOUND NEAR THE PORT OF CONAKRY, BUT SEEM TO BE HAVING SOME DIFFICULTY GETTING THE GO AHEAD FROM THE GOG. GIVEN THE IMPORTANCE OF THIS ISSUE TO THE DEVELOPMENT OF THE PRIVATE SECTOR AND THE BANKS' LENDING PROGRAM, AAO SUGGESTS THAT PERHAPS SOME LANGUAGE BE INCLUDED IN THE COVENANT SECTION OF THE EPRP GRANT AGREEMENT WHICH WOULD ENCOURAGE THE GOG TO MOVE AHEAD WITH THE ESTABLISHMENT OF BONDED WAREHOUSES. SUCH LANGUAGE MIGHT READ AS FOLLOWS: "TO FURTHER PROMOTE FOREIGN TRADE AND COMMERCE, THE GOG COMMITS ITSELF TO THE ESTABLISHMENT OF BONDED WAREHOUSES". ALSO, WE MAY WISH TO ADD ADDITIONAL LANGUAGE IN THE COVENANT SECTION WITH REGARDS TO LAND TITLE CONSTRAINTS - (9) 92: "THE GOG WILL CONTINUE TO ENDEAVOR TO REMOVE ALL OBSTACLES TO THE FULL AND RAPID GROWTH OF THE PRIVATE SECTOR, INCLUDING THE ADOPTION AS SOON AS POSSIBLE OF A RELIABLE LEGAL SYSTEM FOR GRANTING PROPERTY TITLES AND THE ESTABLISHMENT OF A UNIFORM LAND TENURE SYSTEM".

5. IN SUM, THE PROBLEM IN BANKING IS A LACK OF CONFIDENCE WITH BOTH BANKING CLIENTELE AND THE CENTRAL BANK THAT STEMS FROM THE NEWNESS OF THE BANKING SYSTEM (STILL LESS THAN SEVEN MONTHS OLD). THIS INADEQUATE TRACK RECORD PERIOD AND THE BANKERS' BELIEF THAT THERE ARE NOT REAL GUARANTEES, AND THUS THEY ARE ASSUMING 100 PERCENT RISK IN EVERY LOAN THAT THEY MAKE AS THERE IS REALLY NO RECOURSE FOR COLLECTION OF ANY UNPAID LOAN AT THIS TIME. ALSO, THEY DO NOT FULLY TRUST THE CENTRAL BANK OR THE GOG AS THEY HAVE HAD SOME DIFFICULTY WITH THE

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IMPLEMENTATION OF SOME CLAUSES OF THEIR CHARTER. THIS SITUATION REQUIRES THAT OUR EPRP CREDIT FUND ALSO SERVE TO ENCOURAGE CONFIDENCE IN A PRIVATE BANKING SYSTEM ON THE PART OF ALL PARTIES CONCERNED. IT ALSO REMINDS US THAT WE ARE STILL IN AN INITIAL, AND SOMEWHAT FRAGILE, TESTING PHASE WHEN IT COMES TO BANKING OPERATIONS IN LUTHE.

6. ANOTHER TOPIC BROUGHT UP BY THE BANKS WAS THE POSSIBILITY OF RECEIVING TECHNICAL ASSISTANCE, SHORT AND LONG-TERM, FOR THEIR BANKING OPERATIONS, SPECIFIC ANALYSES, LOAN EVALUATIONS, FEASIBILITY STUDIES, ETC. THE BANKS ARE VERY EAGER TO RECEIVE U.S. TECHNICAL ASSISTANCE AND ARE ALREADY FOLLOWING UP WITH AAO ON THIS SUBJECT. AAO'S POSITION IS THAT IT IS TOO EARLY TO KNOW WHAT, IF ANY, TECHNICAL ASSISTANCE WE CAN OFFER THE BANKS. (IT IS ALSO INTERESTING TO NOTE THAT DURING RECENT TALKS WITH CENTRAL BANK OFFICIALS AAO WAS ASKED IF HE COULD PROVIDE TECHNICAL ASSISTANCE FOR SETTING UP A COMPUTERIZED ACCOUNTING SYSTEM AND FOR PERIODIC AUDIT PURPOSES.)

7. THE DIALOGUE WITH THE BANKS HAS BEEN ONE OF THE MORE INTERESTING AND PROMISING EXCHANGES THE AAO HAS HAD DURING THE PAST YEAR, AND ALL SIGNS ARE THAT THERE IS PLENTY OF ROOM FOR US TO HAVE AN IMPORTANT IMPACT ON THE BANKING SECTOR VIA OUR EPRP CREDIT FUND. IT IS CLEAR THAT IN THE FUTURE WE WILL HAVE TO DEAL MORE WITH THE NEW BANKERS' ASSOCIATION INSTEAD OF INDIVIDUAL BANKS ON A NUMBER OF QUESTIONS, INCLUDING RISK LEVEL AND THE AMOUNT OF FUNDS TO BE ALLOTTED TO EACH BANK. IT IS ALSO CLEAR THAT AS DMI (THE BANK OPERATED ON ISLAMIC PRINCIPLES) IS A FULL MEMBER OF THIS ASSOCIATION IT WILL HAVE TO BE CONSIDERED AS A RECIPIENT OF FUNDS UNDER OUR EPRP CREDIT PROGRAM. THESE AND MANY OTHER ISSUES RELATED TO THE ESTABLISHMENT OF THIS PROGRAM WILL HAVE TO BE DEALT WITH EARLY IN THE EPRP PERIOD BY EXPERT CONSULTANTS. IT IS ONLY WHEN THE WORK OF THESE CONSULTANTS IS COMPLETED AND REVIEWED WITH GOG AUTHORITIES AND THE BANKERS' ASSOCIATION THAT WE WILL REALLY KNOW HOW OUR FUND WILL WORK AND WHAT FORM SHOULD BE ADOPTED FOR SHARING RISKS OR PROVIDING A MECHANISM FOR PROGRESSIVELY INCREASING THE SHARE ASSUMED BY THE BANKERS.

8. THE BANKERS APPEAR EAGER TO PURSUE THIS DIALOGUE AS WE HAVE REVISED SOME FUNDAMENTAL ISSUES WHICH HAVE YET TO BE CONSIDERED. WE WOULD APPRECIATE SOME QUICK FEEDBACK ON REFTEL AND THE JULY 14 EPRP MEETING WHICH COULD BE SHARED WITH THE GOG, CENTRAL BANK, AND BANKERS' ASSOCIATION IN ORDER TO CONTINUE THE DIALOGUE AND HOPEFULLY FURTHER THE AIMS OF THE EPRP.
MITHOEFER

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